MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

DFA5048 – FINANCIAL ACCOUNTING 4

(For Diploma Students Only)

4 MARCH 2016
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of seven (7) pages only excluding the cover page.
2. There are **FIVE (5)** questions. The distribution of marks for each question is given.
3. Answer **ALL** questions in the answer booklet provided.

QUESTION 1

Part A

Vista Galaxy Bhd was incorporated on 1 July 2014 with an authorized capital of RM1,200,000 comprising 400,000 ordinary shares of RM2.00 each and the remaining is 10% preference shares of RM1.00 each.

The following transactions took place during the year ended 30 June 2015:

1. 250,000 10% preference shares were issued at 15% premium, payable in full on application.
2. 340,000 ordinary shares were issued at a premium of 10% each on the following terms:

On application	60 sen
On allotment	80 sen (including premium)
On 1st and 2nd call	40 sen

3. Applications received were 420,000 ordinary shares.
4. The directors rejected 70% of excess applications and allotted the shares on pro rata basis among the remaining applicants. Any surplus money on application was used to pay up on allotment.
5. The 1st call was duly collected when due except of one shareholder who held 17,000 ordinary shares which failed to pay.
6. All monies due were received upon 2nd and final call.
7. Issue cost amounted to RM18,000.

Instructions:

(a) Journalize the entries to record the above transactions. (10 marks)

(b) Prepare bank account by assuming beginning bank balance is RM800,000. (4 marks)

(c) Prepare the extract of the Statement of Financial Position for the company after the 1st call. (3 marks)

Part B

The following Statement of Financial Position (extract) relates to Cumon-Engineering Bhd as at 31 December 2015.

Issued and paid-up capital	
500,000 Ordinary shares at RM2.00 each	1,000,000
Reserves	
Retained profit	1,250,000
Share premium	300,000
Non-current Liability	
250,000 8% Redeemable preference shares of RM2.00 each	500,000

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Additional information:

1. On January 2016, the company redeem all the preference shares at a premium of RM0.50 each share. The share premium account was used to write off the premium on redemption.
2. To finance the redemption, Cumon-Engineering Bhd issue 90,000 ordinary shares at a premium of 10% each and transferring RM320,000 from the retained profit to the capital redemption reserve.

Instructions:

(a) Prepare journal entries to record the above transactions. (6 marks)

(b) Prepare extract of the Statement of Financial Position after the completion of the redemption. (2 marks)

[TOTAL 25 MARKS]

QUESTION 2

(a) Reserves are profits retained by the company; classified as capital reserves and revenue reserves. Briefly explain between these two. (2 marks)

(b) Capital of a company comprises of share capital (equity) and loan capital (liability). List and explain any **FIVE (5)** terms related to equity capital of a company. (5 marks)

(c) In financial markets, a share is a unit of account for various investments. Briefly explain **THREE (3)** classes of shares in company. (3 marks)

[TOTAL 10 MARKS]

QUESTION 3

Part A

The following is the Statement of Financial Position of Civicee Bhd. as at 31 December 2015.

Civicee Bhd. Statement of Financial Position as at 31 December 2015		
	(RM)	(RM)
Non-current assets		
Land	360,000	
Motor Vehicles	250,000	
Building	327,000	937,000
Intangible assets		
Goodwill	136,000	
Research and Development	165,000	301,000
Current assets		
Inventories	89,000	
Trade receivables	67,000	
Cash in hand	143,500	299,500
		1,537,500
Authorized capital		
900,000 8% Preference shares of RM1 each		900,000
600,000 Ordinary shares of RM2 each		1,200,000
		2,100,000
Issued and paid up capital		
450,000 8% Preference shares of RM1 each		450,000
300,000 Ordinary shares of RM2 each		600,000
		1,050,000
Reserves		
Share premium	184,000	
Accumulated losses	(150,000)	34,000
Non-current Liabilities		
8 % debentures		192,000
Current Liabilities		
Loan from directors	72,000	
Overdraft bank	86,000	
Trade payables	103,500	261,500
		1,537,500

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Additional information:

a. All assets are at net book value.

b. Contingent liability has not been provided for a damages worth RM42,000 and yet the company settled the full amount.

Civicee Bhd. has undergone losses for past few years. The company passes special resolution and the approval of the court was obtained for the following scheme of internal reconstruction:

1. The preference shares and ordinary shares to be reduced to RM0.30 and RM1.20 per share fully paid respectively.

2. The directors agreed to accept half of the repayment of loan from directors by cash and the balance is to be settled by issues of 30,000 ordinary shares of 1.20 each.

3. Preference shareholders to accept 100,000 ordinary shares of RM1.20 each in exchange for the 8% preference shares.

4. Share premium account to be utilized for the scheme.

5. To write off accumulated losses, and all intangible assets.

6. Cost of reconstruction is RM50,000.

7. Revaluation of assets are as follows:

	(RM)
Motor Vehicles	220,000
Trade receivables	14,000
Building	259,000
Inventories	29,000

Instructions:

(a) Prepare the journal entries to record the capital reduction. (13 marks)

(b) Prepare the Statement of Financial Position of the company after the capital reduction had been completed. (6 marks)

Part B

Companies Act 1965 requires a company's paid up capital to be maintained. However, there are special circumstances where the company may have to reconstruct its capital structure.

Specify any **TWO (2)** situations where the company may reconstruct its capital structure. (1 mark)

[TOTAL 20 MARKS]

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QUESTION 4

Part A

(a) Define and state any TWO (2) ways of business combination. (3 marks)
(b) State any TWO (2) advantages for combining businesses. (2 marks)
(c) One of the factors that determine purchase price is *goodwill*. Briefly explain these factors in a business combination. (2 marks)

Part B

Bella & Rose are partners for BR Partnership for almost 5 years. They are planning to convert their partnership business into a limited liability company name BR Corporation. On 1 January 2015 the new company was incorporated with an authorized capital of RM1,200,000 ordinary shares of RM1 per share to purchase all assets (excluding cash) and liabilities of BR Partnership on 1 January 2015. BR Corporation was to discharge the purchase price by issuing 800,000 units of ordinary shares at RM1.00.

Below is the Statement of Financial Position of BR Partnership as at 1 January 2015.

BR Partnership
Statement of Financial Position as at 1 January 2015

	(RM)	(RM)
Current Assets		
Cash	8,000	
Account Receivables	80,000	
Prepaid Insurance	40,000	
Inventories	20,000	
		148,000
Non-current Assets		
Building		400,000
Office Equipment (cost)	130,000	
Less: Accumulated Depreciation - OE	10,000	120,000
Motor Vehicles (cost)	95,000	
Less: Accumulated Depreciation – MV	15,000	80,000
TOTAL ASSETS		**748,000**
Current Liabilities		
Account Payables	20,000	
Note Payables	28,000	
		48,000
Owners' Equity		
Capital, Bella	400,000	
Capital, Rose	300,000	
		700,000
TOTAL LIABILITIES & EQUITY		**748,000**

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Additional information:

i. The fair values of the assets taken over:

	RM
Account Receivables	60,000
Prepaid Insurance	35,000
Inventories	15,000
Building	440,000
Office Equipment	130,000
Motor Vehicles	90,000

ii. Bella & Rose share profits and losses 2:1.

iii. Both agreed to accept any cash remaining as part settlement of the amount due to them on liquidation of the company (based on profit sharing ratio).

Instructions:

(a) Calculate the purchase price and goodwill. (4 marks)
(b) Prepare journal entries to close the book of BR Partnership. (8 marks)
(c) Prepare journal entries to open the book of BR Corporation. (6 marks)

Show all your workings and roundup to the nearest figures.

[TOTAL 25 MARKS]

QUESTION 5

Amanda Corporation and Kartika Corporation are two companies that have decided to amalgamate to become AK Corporation in beginning year of 2015. This new company is going to acquire all the assets and liabilities from both two previous companies.

Authorised share capital of AK Corporation is made up of 4,000,000 ordinary shares of RM1 per share and 800,000 7% preference shares of RM1 per share. Furthermore, RM100,000 of ordinary shares are issued to the founders at par for cash in order to register AK Corporation.

Below are the Statements of Financial Position of Amanda Corporation and Kartika Corporation as at 31 December 2014.

Statements of Financial Position as at 31 December 2014		
	Amanda (RM)	**Kartika (RM)**
Current Assets		
Cash	160,000	120,000
Trade Receivables	120,000	160,000
Inventories	160,000	120,000

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Non-current Assets		
Property, Plant & Equipment	560,000	600,000
Long-term Investment	120,000	160,000
Goodwill	40,000	20,000
TOTAL ASSETS	**1,160,000**	**1,180,000**
Current Liabilities		
Trade Payables	160,000	60,000
Shareholders' Equity		
7% Preference Shares	-	400,000
Ordinary Shares of RM1 per share	1,200,000	400,000
Profit and (Loss)	(200,000)	320,000
TOTAL LIABILITIES & EQUITY	**1,160,000**	**1,180,000**

Additional information:

i. The fair values of the assets:

	Amanda (RM)	**Kartika (RM)**
Property, plant & equipment	800,000	1,000,000
Long-term investment	60,000	80,000
Goodwill	NIL	140,000
Current assets	Book Value	Book Value

ii. Ordinary shares fully paid in AK Corporation to be issued to Amanda Corporation to satisfy the purchase consideration.

iii. Kartika Corporation to be issued with 480,000 7% preference shares and fully paid ordinary shares at par in AK Corporation. Preference shares issued are to be used to discharge Kartika Corporation's preference shareholders.

iv. Both Amanda Corporation and Kartika Corporation are to be wound up. Liquidation expenses of RM20,000 each to be paid for by AK Corporation.

Instructions

(a) Calculate the purchase price and purchase consideration. (4 marks)
(b) Prepare journal entries to close the book of Amanda Corporation. (7 marks)
(c) Prepare journal entries to close the book of Kartika Corporation. (9 marks)

Show all your workings and roundup to the nearest figures.

[TOTAL 20 MARKS]

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